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# Iowa Legislative Services Agency Fiscal Services

Dennis Prouty  
(515) 281-5279  
FAX 281-8027



State Capitol  
Des Moines, IA 50319  
October 23, 2007

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## Local Option Sales Tax

### ISSUE

This **Issue Review** provides an update of the December 1, 1998, **Issue Review** on local option sales taxes, including background information and recent activity of local option sales taxes. This **Issue Review** will focus on the city and county Local Option Sales Tax (LOST). Another will provide more detailed information on the School Infrastructure Local Option Sales Tax (SILO).

### AFFECTED AGENCIES

Department of Revenue  
Iowa Cities and Counties

### CODE AUTHORITY

Chapter 423B, Code of Iowa

### BACKGROUND

There are two types of local option taxes under Chapter 423B, Code of Iowa; the local vehicle tax and the Local Option Sales Tax (LOST). In addition to these local option taxes, Chapter 423E, Code of Iowa, provides for a School Infrastructure Local Option Sales Tax (SILO).

Local option taxes were originally approved in SF 395 (Chapter 32, 1985 Iowa Acts). After approval by voters within the jurisdiction, the local option tax must be imposed on January 1, or July 1. Once the tax is imposed, it cannot be repealed until the tax has been in effect for one year. If the law contains no specific sunset for the tax it is effective until repealed.

Currently, LOST elections are held on a county-wide basis and imposed in jurisdictions that receive voter approval. In counties that currently have jurisdictions that have imposed LOST, the remaining jurisdictions within the county can impose LOST with voter approval. Cities that are contiguous must have approval of a majority of voters in the contiguous area. Cities that had the LOST in place prior to July 1, 2000, can continue to collect the tax until the tax is repealed.

A Local Option Sales Tax is imposed on the same basis as the State sales and services tax and is not to exceed 1.0%. The tax may not be imposed on the sale of property or any service not taxed by the State. Motor fuel, properties taxed by Chapter 423A (hotel-motel tax), lottery tickets, equipment purchased by the Department of Transportation, self-propelled building equipment, pile drivers, motorized scaffolding, and attachments customarily drawn by such items that are directly and primarily used by contractors, subcontractors, and builders for construction work on real property are exempt from the LOST.

### **LOST Funds**

By August 15 of each fiscal year, a written notice of the monthly estimated local option payments for the fiscal year is sent to localities by the Department of Revenue. Ninety-five percent of estimated tax receipts are paid monthly. For example, the localities estimated July monthly tax distributions will be issued by August 31.

A final payment of any remaining tax due to a locality for the fiscal year is made before November 10 of the next fiscal year. If an overpayment to a locality exists for the fiscal year, a reduction of monthly distributions will begin with the November payment to reflect the overpayment.

The local option sales tax collected within a county is placed in a special distribution fund. The fund is distributed on the basis of population (75.0%) and property tax levies (25.0%). The population factor is based on the most recent certified federal census. The property tax factor is the sum of property tax dollars levied by boards of supervisors or city councils for the three years from July 1, 1982, through June 30, 1985. The property tax data is compiled from city and county tax reports available from the Department of Management. Only population and property tax levies of the jurisdiction imposing the tax are used in figuring percentages.

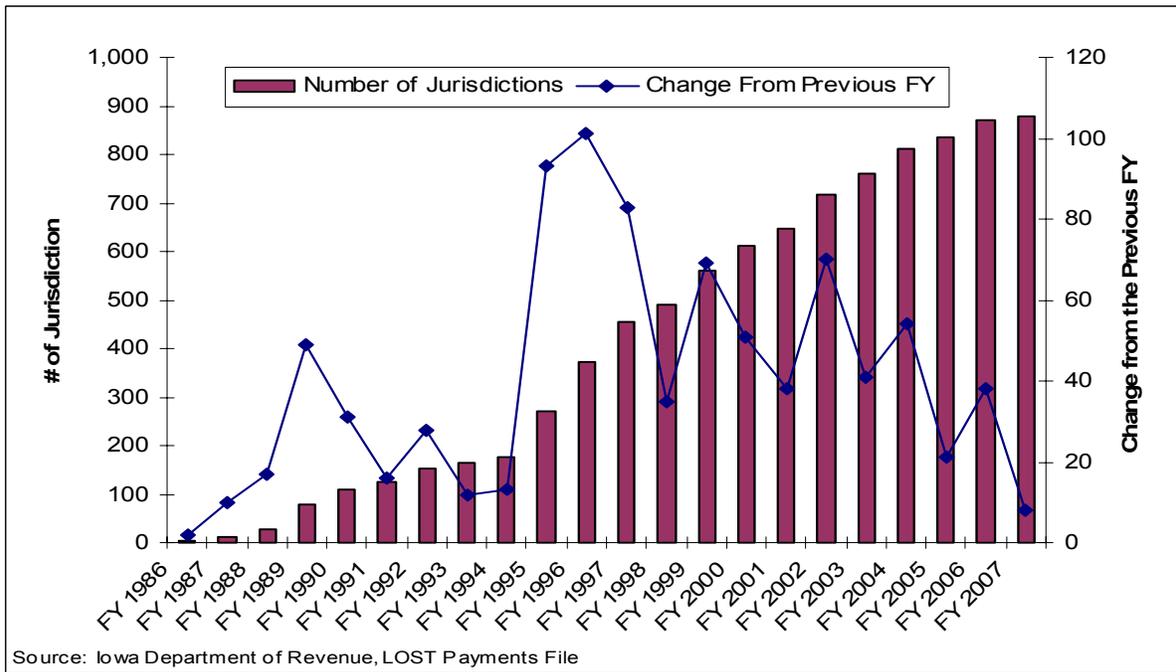
### **CURRENT SITUATION**

**Figure 1** shows the number of local jurisdictions that have imposed the Local Option Sales Tax (LOST) between FY 1986 and FY 2007<sup>1</sup>. The number of jurisdictions that have implemented the Tax has grown each year and gone from two in FY 1986 to 880 in FY 2007. **Figure 1** also provides the change in the number of jurisdictions that implemented the LOST between FY 1986 and FY 2007. The largest increases came between FY 1995 and FY 1997. The smallest overall increase since the implementation of LOST was in FY 2007, with an overall increase in eight jurisdictions.

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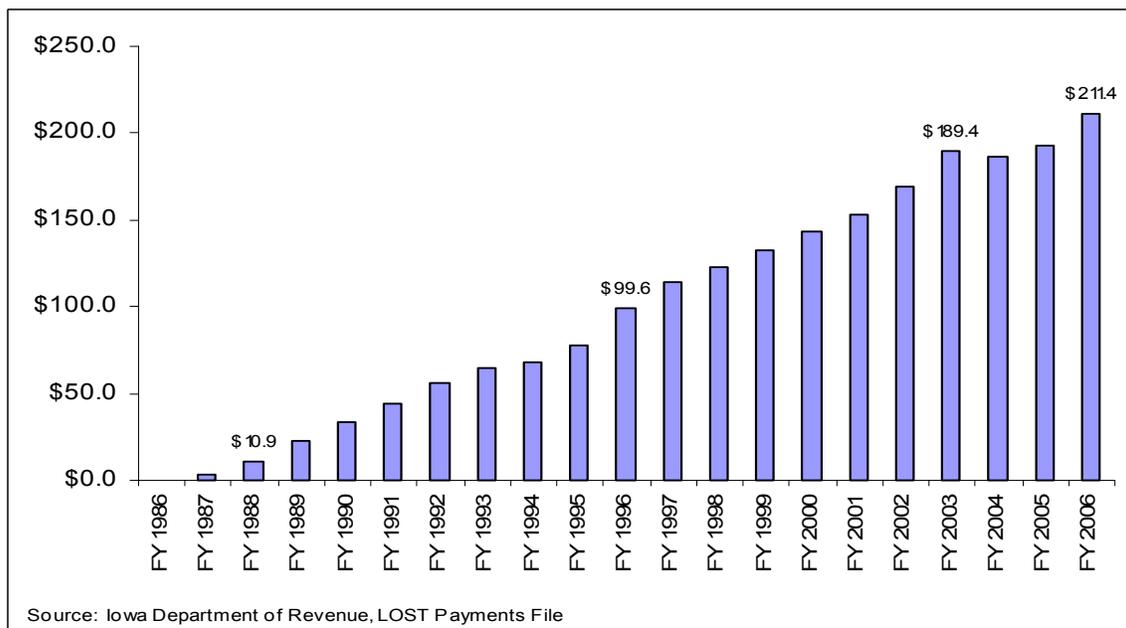
<sup>1</sup> A number of cities lie in multiple counties and receive separate LOST payments based on the portion generated from the specific county. Counts calculated in **Figure 1** and **Figure 2** represent an unduplicated count of cities and one unincorporated area per county.

**Figure 1**  
**Number of Jurisdictions Implementing LOST: FY 1986 – FY 2007**



As the number of jurisdictions implementing the LOST increased, the amount of LOST revenue has increased as well. **Figure 2** provides the amount of LOST revenue from FY 1986 to FY 2006. In FY 1986, the two jurisdictions that had LOST generated \$11,941 in tax revenue. With the exception of FY 2004, LOST revenue amount has increased every year, totaling over \$200.0 million in FY 2006.

**Figure 2**  
**Local Option Sales Tax (in Millions): FY 1986 – FY 2006**



Local Option Sales Tax (LOST) payments are based on county-wide sales tax collections and are distributed to jurisdictions within the county that have implemented the Tax. **Table 1** details the 10 counties with largest local option sales tax distribution for FY 2006, FY 2004, and FY 2002. In general, the top 10 counties have remained the same for the fiscal years shown with the exception of FY 2002. Cedar Rapids had implemented the LOST for two years beginning in FY 2002. While there are some jurisdictions within Linn County that currently have a LOST, Cedar Rapids does not. Although all counties have approved the School Infrastructure Local Option (SILO) sales tax, it should be noted that Polk, Johnson, and Linn Counties have not implemented the LOST countywide at this time. A detailed listing of LOST payments by fiscal year, county, and jurisdiction for FY 1986 through FY 2006, may be accessed on the Legislative web site at: [http://staffweb.legis.state.ia.us/lfb/docs/ways\\_means/ways\\_means.htm](http://staffweb.legis.state.ia.us/lfb/docs/ways_means/ways_means.htm).

**Table 1**  
**Ten Counties with Largest LOST Amount**  
**FY 2006, FY 2004, and FY 2002**

	<u>County</u>	<u>LOST Amount</u>	<u>Largest Jurisdiction within County</u>
<b>FY 2006</b>	SCOTT	\$ 23,201,254	Davenport
	BLACK HAWK	15,975,404	Waterloo
	WOODBURY	12,859,632	Sioux City
	DUBUQUE	11,973,038	Dubuque
	POTTAWATTAMIE	11,857,828	Council Bluffs
	STORY	9,613,158	Ames
	CERRO GORDO	7,005,097	Mason City
	DES MOINES	5,523,866	Burlington
	CLINTON	5,297,584	Clinton
	MUSCATINE	4,613,203	Muscatine
<b>FY 2004</b>	SCOTT	\$ 21,872,740	Davenport
	BLACK HAWK	14,912,270	Waterloo
	WOODBURY	11,822,621	Sioux City
	DUBUQUE	10,982,567	Dubuque
	POTTAWATTAMIE	10,063,809	Council Bluffs
	STORY	8,762,385	Ames
	CERRO GORDO	7,388,233	Mason City
	DES MOINES	5,321,340	Burlington
	CLINTON	4,726,659	Clinton
	MUSCATINE	4,071,797	Muscatine
<b>FY 2002</b>	SCOTT	\$ 20,008,865	Davenport
	BLACK HAWK	13,594,889	Waterloo
	LINN	11,658,064	Cedar Rapids
	WOODBURY	10,776,811	Sioux City
	DUBUQUE	10,300,410	Dubuque
	POTTAWATTAMIE	9,691,452	Council Bluffs
	STORY	7,958,933	Ames
	CERRO GORDO	5,870,131	Mason City
	DES MOINES	5,157,663	Burlington
CLINTON	4,738,045	Clinton	

A majority of counties had implemented LOST as of FY 2008. **Table 2** shows the percentage of jurisdictions within each county that have implemented LOST as of July 1, 2007 (FY 2008). Of the 99 counties in Iowa, 62 (62.6%) had implemented LOST county-wide (all jurisdictions within the

county have implemented LOST). Another 26 counties have at least 75% of the jurisdictions implementing LOST within the county, and six counties (Calhoun, Dallas, Johnson, Osceola, Warren, and Wayne) have no jurisdictions with the LOST.

**Table 2**  
**Percentage of Jurisdictions within County Implementing LOST – FY 2008**

<b>Percentage of Jurisdictions with LOST within County</b>	<b>Number of Counties</b>	<b>Percent of Counties</b>
100%	62	62.6%
75% - 99.9%	26	26.3%
50%-74.9%	0	0.0%
25%-49.9%	3	3.0%
0.1% - 24.9%	2	2.0%
0%	6	6.1%

Source: Iowa Department of Revenue, LOST Status File

Information regarding LOST status by jurisdiction for FY 2008 is available on the Legislative web site at: [http://staffweb.legis.state.ia.us/lfb/docs/ways\\_means/ways\\_means.htm](http://staffweb.legis.state.ia.us/lfb/docs/ways_means/ways_means.htm). The information includes the LOST rate, date the LOST expires (if applicable), and the date implemented. Also included is information on the School Infrastructure Local Option Sales Tax, including the SILO rate, effective date, sunset date, and the overall sales tax rate in the jurisdiction.

Currently, the State sales tax rate is \$0.05. Beginning on July 1, 2007, all counties had implemented that School Infrastructure Local Option Sales Tax (SILO) at a rate of \$0.01 with the exception of Webster County with a SILO rate of less than \$0.01 at \$0.005. Webster County also implemented the LOST at \$0.005, which means that the statewide (including State, LOST, and SILO) sales tax rate varies between \$0.06 and \$0.07.

For additional information regarding the Local Option Sales Tax, school infrastructure local option sales tax, or State sales tax, please contact the Legislative Services Agency.

STAFF CONTACT: Shawn Snyder (Ext. 17799)

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<http://www.legis.state.ia.us/lsadoc/IssReview/2008/IRSL001.pdf>  
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